While I appreciate the idea of a regulatory body created in 1934 to protect investors and restore investor confidence after the 1929 market crash, I'm am concerned that the SEC is writing regulations accompanied with EXCEPTIONS and EXEMPTIONS to present the appearance of investor protection while instead focusing on their mission agenda of facilitating capital formation.

For instance I am in favor of, and will post this comment on, the following Dec 14, 2022 rule proposals:

- Regulation Best Execution
- Order Competition Rule
- Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders
- Disclosure of Order Execution Information

However, increasing rules on disclosure, transparency, order competition, and execution only protects investors if it is enforced and free from EXCEPTIONS.

Please consider the visualization of the world's money information published Nov 28, 2022 available at https://www.visualcapitalist.com/all-of-the-worlds-money-and-markets-in-one-visualization-2022/ and note the image below illustrating significant value in derivatives with significant disparity between Notional and Market value:

Here's an overview of all the items we have listed in this year's visualization:

Asset category	Value	Source	Notes
SBF (Peak Net Worth)	$26 billion	Bloomberg	Now sits at <$1B
Pro Sports Teams	$340 billion	Forbes	Major pro teams in North America
Cryptocurrency	$760 billion	CoinMarketCap	Peaked at $2.8T in 2021
Ukraine GDP	$130 billion	World Bank	Comparable to GDP of Mississippi
Russia GDP	$1.8 trillion	World Bank	The world's 11th largest economy
Annual Military Spending	$2.1 trillion	SIPRI	2021 data
Physical currency	$8.0 trillion	BIS	2020 data
Gold	$11.5 trillion	World Gold Council	There are 205,238 tonnes of gold in existence
Billionaires	$12.7 trillion	Forbes	Sum of fortunes of all 2,668 billionaires
Central Bank Assets	$28.0 trillion	Trading Economics	Fed, BoJ, Bank of China, and Eurozone only
S&P 500	$36.0 trillion	Slickcharts	Nov 20, 2022
China GDP	$17.7 trillion	World Bank	
U.S. GDP	$23.0 trillion	World Bank	
Narrow Money Supply	$49.0 trillion	Trading Economics	Includes US, China, Euro Area, Japan only
Broad Money Supply	$82.7 trillion	Trading Economics	Includes US, China, Euro Area, Japan only
Global Equities	$95.9 trillion	WFE	Latest available 2022 data
Global Debt	$300.1 trillion	IIF	Q2 2022
Global Real Estate	$326.5 trillion	Savills	2020 data
Global Private Wealth	$463.6 trillion	Credit Suisse	2022 report
Derivatives (Market)	$12.4 trillion	BIS	
Derivatives (Notional)	$600 trillion	BIS	

Given this macro view, a regulator like the SEC might be interested in protecting the public from any misreporting or swap collateral risk. Especially considering misappropriated derivative instruments were the core of the 2008 Financial crisis (I.E. Collateralized Debt Obligations & Credit Default Swaps).

Upon a quick google search: “does the sec regulate derivatives”
We find more exclusions and exemptions (specifically around shorts and hedging):

What is SEC derivative rule?

Under the rule, “derivatives exposure” is the sum of: (1) the gross notional amounts of a fund's derivatives transactions such as futures, swaps, and options; and (2) in the case of short sale borrowings, the value of any asset sold short. Funds may exclude certain currency and interest rate hedging transactions. Feb 4, 2021

https://www.sec.gov › investment › derivatives-use-regi...

As a concerned investor, if I look into the short sale borrowing regulations I may come across your site link https://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm which I am happy to see cites REG SHO as having amendments which eliminated some original EXCEPTIONS, previously allowing market makers the opportunity to sell stocks without delivering them.

However I’m still not sure how the public is being protected by writing rules which consist mostly of exceptions. See Rule 203b and 204 below where the highlighted sections are just exceptions to the rule:

Regulation SHO’s four general requirements are summarized below:

- *Rule 200 — Marking Requirements.* Rule 200(g) requires that a broker-dealer must mark all sell orders of any equity security as “long,” “short” or “short exempt.” A sell order may only be marked “long” if the seller is “deemed to own” the security being sold and either: (i) the security to be delivered is in the physical possession or control of the broker or dealer; or (ii) it is reasonably expected that the security will be in the physical possession or control of the broker or dealer no later than the settlement of the transaction. The “short exempt” marking requirement applies only with respect to the short sale price test restriction.
- *Rule 201 — Short Sale Price Test Circuit Breaker.* Rule 201 generally requires trading centers to have policies and procedures in place to restrict short selling when a covered security has triggered a circuit breaker by experiencing a price decline of at least 10 percent in one day. Once the circuit breaker in Rule 201 has been triggered, the price test restriction will apply to short sale orders in that security for the remainder of the day and the following day, unless an exception applies.
- *Rule 203(b)(1) and (2) — Locate Requirements.* Rule 203(b)(1) generally prohibits a broker-dealer from accepting a short sale order in any equity security from another person, or effecting a short sale order in an equity security for the broker-dealer’s own account, unless the broker-dealer has: borrowed the security, entered into a bona-fide arrangement to borrow the security, or reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due. Rule 203(b)(2) provides an exception to the locate requirement for short sales effected by a market maker in connection with bona-fide market making activities.
- *Rule 204 — Close-out Requirements.* Under Rule 204, participants of a registered clearing agency (as defined in section 3(a)(24) of the Exchange Act) must deliver securities to a registered clearing agency for clearance and settlement on a long or short sale transaction in any equity security by settlement date, or must close out a fail to deliver in any equity security for a long or short sale transaction in that equity security generally by the times described as follows: the participant must close out a fail to deliver for a short sale transaction by no later than the beginning of regular trading hours on the settlement day following the settlement date, referred to as T+4; if a participant has a fail to deliver that the participant can demonstrate on its books and records resulted from a long sale, or that is attributable to bona-fide market making activities, the participant must close out the fail to deliver by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date, referred to as T+6. In addition, Rule 203(b)(3) of Regulation SHO requires that participants of a registered clearing agency must immediately purchase shares to close out fails to deliver in “threshold securities” if the fails to deliver persist for 13 consecutive settlement days. Threshold securities, as defined by Rule 203(c)(6), are generally equity securities with large and persistent fails to deliver.

REG SHO was implemented in 2005. Particularly Rule 204 was implemented as an emergency (re)action to the 2008 market crash, which then begs the question “why is most of that rule tailored to extra time exceptions allotted for fraudulent transactions (termed Failure to Deliver)?”.

Again my point is for the SEC to please continue eliminating EXEMPTIONS and EXCEPTIONS. Rules should be clear and concise. The investing public is generally not paying attention to their pensions and bi-weekly retirement account deposits because they believe that they are being protected. Comically, that those companies have a fiduciary duty. That when they put money into an investment account, they are exchanging that money for securities. It is unfortunate, that those things are not true, and that stocks no longer have to be exchanged for the money provided thanks to the SEC's massive EXEMPTIONS and EXCEPTIONS agenda.

Aside from clearly labeled EXEMPTIONS and EXCEPTIONS there are rules that are constructed in the name of efficiency or liquidity which similarly facilitate fraudulent practices. Recently (October 14, 2021) the SEC addressed another market failure prompting a "Buy Button Removal" across APEX Clearing brokers with the "Staff Report on Equity and Options Market Structure Conditions in Early 2021". Candidly, it read like a very disappointing book report and provided little reassurance of investor protection. Afterwards in June 2022, the U.S. House Committee on Financial Services released a much more insightful report titled "GAME STOPPED: HOW THE MEME STOCK MARKET EVENT EXPOSED TROUBLING BUSINESS PRACTICES, INADEQUATE RISK MANAGEMENT, AND THE NEED FOR LEGISLATIVE AND REGULATORY REFORM"

Full report: https://democrats-financialservices.house.gov/uploadedfiles/6.22_hfsc_gs.report_hmsmeetbp.irm.nlrf.pdf

More commonly known as "The GameStopped Report", it highlighted many other market EXCEPTIONS facilitating the liquidity event. Specifically I'd like to address the practice of Net Settlement as it applies to a few excerpts from that report. Please consider the following highlighted portions:

Robinhood employees were particularly worried about submitting a critical file to the Options Clearing Corporation (OCC) on a timely basis. The OCC is a clearinghouse that provides central counterparty clearing and settlement services for the securities derivates market.[75] The OCC serves a similar role for the derivatives market as the NSCC serves in the equities market. When calculating daily broker-dealer dealer margin requirements, the OCC permits broker-dealers

[68] RH_HFSC_00005965 (on file with the Committee).
[69] RH_HFSC_00005965 (on file with the Committee).
[70] *Id.*
[71] RH_HFSC_00006803 (on file with the Committee)
[72] Robinhood briefing with the Committee (Nov. 03, 2021).
[73] RH_HFSC_00006803 (on file with the Committee).
[74] RH_HFSC_00006803 (on file with the Committee).
[75] OCC, What is OCC? (accessed Jan. 27, 2021).

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to offset long and short positions in the same security so as to lessen the total margin owed for the day.[76] To obtain such an offset, broker-dealers must submit a file to the OCC that includes all of its long and short positions by 9:00 p.m. EST each day.[77] If the broker-dealer does not submit a request to offset securities, the OCC assumes there is no offset for each security and charges the maximum margin. In other words, rather than long positions offsetting short positions in calculating margin requirements, the OCC charges the full margin obligations for all the securities in a broker-dealer's uncleared portfolio.[78]

On January 25, 2021, Robinhood faced operational strain on its systems used to calculate its OCC spread file.[79] Given the historic volume and volatility in the markets, the OCC extended the deadline for all broker-dealers to submit their spread file on January 25, 2021. Robinhood ran various models to estimate its OCC obligations if it missed the extended deadline to submit its file to the OCC.[80] On the night of January 25, 2021, Robinhood Securities' Senior Director of Clearing Operations estimated the OCC's requirement to be approximately \$1.6 to \$1.9 billion if the company was unable to submit its spread file by the deadline. He also advised that missing the OCC deadline would almost certainly prompt a regulatory investigation of the firm.[81]

The OCC extended its deadline on the night of Monday, January 25, 2021 for Robinhood and others, and extended the deadline by 60 to 90 minutes every other night of that week due to the heightened volatility.[92] Robinhood was ultimately able to work through its system issues and submitted its spread file to the OCC shortly before the extended deadline.[93] In communication with Robinhood's Head of Engineering after the company successfully submitted its file to the OCC, Gretchen Howard commented, "Made it with 1 minute to spare!!!".[94]

Robinhood's OCC collateral requirement was $92 million on January 25, 2021, rather than the estimated $1.6 to $1.9 billion charge.[95] Robinhood employees ended the day aware that further market volatility was likely,[96] Throughout the evening and into the night, Jim Swartwout remained wary of regulatory scrutiny.[97] While Robinhood employees were relieved to have submitted their OCC spread file on time, Swartwout remained cognizant of other operational difficulties that might concern regulators and communicated such concerns to Gretchen Howard, including FINRA's concerns with Robinhood's ability to continue processing fractional shares.[98] On the evening of January 25, 2021, the company's Head of Data Science warned that the company should not rule out higher volume days for the rest of the week and suggested considering contingencies if Robinhood missed the OCC's deadlines in the future.[99]

The incident referenced in this report raises my interest on why a broker needs an "engineer" to solve their problem of "uncleared" transactions. It should be simple. A public/private investor has provided the broker money for a stock, or collateral for a borrowed stock, so the broker executes that transaction by locating and providing the desired security which the public/private investor paid for.

Additionally, reducing a $1.9B collateral trade obligation down to just $92M is a MARJOR RED FLAG FOR FRAUDULENT RECONCILIATION. That is essentially 20X leverage. I expect that the regulatory agency is aware of the inherent risk to the investing public of this "offsetting" practice. It is being used as an EXCEPTION to required collateral.

Furthermore, a long does not have a 1 to 1 value with a short. So I would appreciate the SEC closing that loophole immediately. Terminology may cause some confusion, but my understanding is that (aside from puts/calls) a long is a buy order which simply exchanges money for a stock. This causes a -1 value to the supply of that security. In contrast, a short is a "borrowed stock" sale which needs to be located and available (one that may not be available of course; i.e. naked shorting) because inherently one cannot sell a security without owning/buying it at some point. That means a short is a net neutral value (-1 from the current sale +1 from the future purchase).

Many arguments could be made around the similarities of shorts and longs, or whether or not a long ever needs to be sold. But the percentages and slight variances mean that they are not mathematically the same. They should not be offsetting, and the bottom line is that the current Net Settlement process is ripe for misrepresentation and cooking the books. It is at the core of share lending issues, rehypothecation, and naked shorts. This practice significantly increases the risk to public investors even if it was not full of fraudulent practices, which it likely is.

In summary, thank you for another rule proposal. I hope that these 4 rules will serve the public. My personal opinion is that they will have little to no impact. Mostly because we have plenty of rules on the books that are currently not enforced through penalties or arrests to an extent that would make bad actors or EXEMPT market makers remember that the SEC even exists. To top it off, I've recently watched the Madoff series on Netflix which clearly illustrates the SEC turning a blind eye during his decade long financial market Ponzi. The lack of action since the GameStop incident nearly two years ago supports that the SEC is just as serious about investor protection as it was then. Please forgive me for my lack of optimism as I watch pensions continue to drain this year, as they did last year, all while the price action is clearly detached from true supply and demand of securities, and we pretend rule proposals help.